VZCZCXRO8613
PP RUEHDBU RUEHHM RUEHJO
DE RUEHMO #1666/01 1760936
ZNY CCCCC ZZH
P 250936Z JUN 09
FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC PRIORITY 3967
INFO RUCNCIS/CIS COLLECTIVE PRIORITY
RUEHXI/LABOR COLLECTIVE PRIORITY
RUEHXD/MOSCOW POLITICAL COLLECTIVE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 MOSCOW 001666

SIPDIS

STATE FOR EUR/RUS, DRL
NSC FOR ELLISON
DOL FOR BRUMFIELD

E.O. 12958: DECL: 06/25/2019
TAGS: ELAB ECON EIND PGOV SOCI RS
SUBJECT: VLADIMIR REGION WEATHERS THE CRISIS

REF: MOSCOW#592

Classified By: EconMinCouns Eric T. Schultz, Reasons 1.4 (b,d)

SUMMARY

¶1. (C) Labor, business, and government leaders in Vladimirskaya oblast remain optimistic about their region's future despite recent setbacks caused by the financial crisis. Regional administration officials anticipate the opening of sixteen new enterprises and production lines by the end of 2009 will largely compensate for losses in production and employment in the ailing machine building sector. Both Russian and foreign companies continue to increase investment in Vladimir as a result of its location, infrastructure, cost of labor, and investment promotion programs. Although SMEs in the region face significant financial and administrative barriers, entrepreneurs continue to open new businesses. However, small business owners remain critical of the regional administration's policies, despite recent improvements in terms of the inspection regime and assistance with lease payments. Regional labor leaders are pleased about the current pause in labor market decline although they worry about new layoffs scheduled for the summer. Strong social partnerships between unions, employers, and government officials in Vladimir reduce labor law violations and facilitate union participation in anti-crisis planning. End summary.

BUSINESS BOUNCES BACK

¶2. (SBU) Discussions with labor, business, and government representatives during a recent trip to Vladimirskaya oblast revealed a region optimistic about its future despite recent setbacks. Located 180km east of Moscow with a population of 1.44 million people, Vladimirskaya oblast is primarily a region of manufacturing companies, which comprise almost 35 percent of gross regional product, with smaller numbers of agriculture and trade enterprises. In the first four months of 2009, the region experienced year-on-year falls in industrial production and capital investment of 22 percent and seven percent, respectively. In addition, actual unemployment in the region rose from 5.6 percent in November 2008 to eight percent in May 2009. However, local officials with whom we met generally stressed the positive impact of the government's anti-crisis measures and asserted that Vladimir was better suited to weather the crisis than other regions. For instance, housing construction was up over 20 percent year-on-year since the beginning of 2009, and real incomes had grown more than five percent, compared to an

average 1.4 percent decrease nationwide.

¶3. (C) Vladimir's ability to attract investment has enabled it to overcome the acute impact of the crisis on its machine building sector, which constitutes 20 percent of its manufacturing output. Gennady Nikanorov, Vladimir Regional Chairman of the Federation of Independent Unions (FNPR), reported that the auto-manufacturing sector, in which four companies had practically ceased operations, had suffered the most. The textile industry also underwent a sharp decline, but with less impact on the regional economy due to its smaller share of overall industrial output. However, Vera Shamota, Head of the Regional Administration's Foreign Economic Relations Department, announced that sixteen enterprises, eight Russian and eight partially or wholly foreign, would open new factories or production lines by the end of the year, effectively replacing the output lost by older, less efficient companies and creating five thousand jobs.

¶4. (C) Russian and foreign companies invest in Vladimir region for its location, infrastructure, and government investment promotion programs. Foreign investment in the region during the first quarter of 2009 totaled over USD107 million, an 11 percent increase over the same period in 2008. Vladimir offers companies a convenient location between the metropolitan areas of Moscow and Nizhny Novgorod with lower wages than either of its neighbors: 12,300 rubles per month on average. In addition to the region's established road, rail, and communication infrastructure, businesses receiving government support also benefit from a 2.2 percent property tax break. Major U.S. investors in the region include Kraft

Foods, Dow Chemical Company, Owens Corning, and the Russian-American Glass Company. Yevgeni Limonov, President of the Vladimir Chamber of Commerce and Industry, stated that the food processing (Vladimir produces over 25 percent of Russia's chocolate), chemical product, and household appliance sectors continue to grow despite the economic downturn because of consistent popular demand for their products.

SMALL BUSINESS OWNERS PERSEVERE

¶5. (C) Although inhibited by the crisis, local entrepreneurs strive to maintain inertia built up over several years of SME growth. According to the government statistics service, the number of workers employed by SMEs more than doubled from 2003 to the beginning of 2008, with over 105,000 employees now working for 8,500 small businesses, primarily located in the trade, manufacturing, and real estate sectors. SME annual turnover increased from 35 billion rubles in 2005 to 63.3 billion rubles in 2007. Dina Smekalova, OPORA Head, acknowledged that SME creation had slowed significantly since the outbreak of the crisis, but insisted that new businesses continued to open.

¶6. (C) Smekalova and other OPORA representatives stressed the detrimental impact of financial challenges faced by small business owners. SMEs suffered from high tariffs on electricity and gas. In addition, securing bank loans and leasing space presented significant challenges to new entrepreneurs. Smekalova stated small businesses would take out a loan only when on the verge of bankruptcy. A loan with an average interest rate of 25 percent would ensure the business would stay open, but with continued losses. Many small business owners also lacked the necessary credit history to qualify for loans. OPORA was working with local banks in the region to reconcile bank lending requirements with the ability of SMEs to provide documentation and guarantees.

¶7. (C) Small business owners gave the regional government's

anti-crisis measures mixed reviews and expressed concern that local governments continued to inhibit rather than encourage business development. The Vladimir regional administration was implementing anti-crisis programs to support SME growth and reduce labor market stress. OPORA representatives particularly highlighted the benefit of partial reimbursement of lease expenses received through the SME support program. In addition, Smekalova anecdotally reported that the new inspection law that entered into effect on May 1 might reduce the frequency and duration of SME inspections, but contended that administrative barriers remained a significant obstacle to growth. Small business owners were critical of the self-employment component of Vladimir's program to reduce labor market stress, which provides funds to unemployed and at-risk workers seeking to start their own business (reftel A), insisting that the government should allocate the funds to develop existing SMEs.

UNEMPLOYMENT GROWTH STALLED

¶8. (C) According to FNPR Regional Chairman Nikanorov, labor market decline in the region had paused, although significant improvements had yet to be observed. Unemployment in the region had doubled since the start of the crisis. Vladimir unions first began to notice an increase in terminations last August. In October, they initiated independent monitoring of terminations, administrative leave, reduced work schedules, and wage arrears. The firing peak hit in December and January. Recently, unions had observed a positive impact on the labor market brought about by the reduced rate of the decline in industrial output, Nikanorov told us. For example, auto manufacturers Avtosvet and Avtopribor had set aside plans for massive layoffs, although the situation remained serious. In addition, wage arrears in Vladimir region had dropped 30 percent from around 30 million rubles to 20 million. Union leaders remained concerned about the future impact of the crisis, noting local companies had already submitted applications to terminate 1,000 to 1,500 employees this summer.

¶9. (C) Nikanorov attributed the favorable position of workers in Vladimir region vis a vis other areas to the strength of

its unions and their social partnership with employers and administration officials. The education, machine building, and public health unions were the strongest in the region. FNPR in Vladimir region had maintained a solid partnership with the regional administration and the employers' association for the last ten years. Unions also participated in the regional anti-crisis committee, which meets once a month to discuss additional measures to combat unemployment and other impacts of the crisis on the labor market. In addition, many district labor collective committees had established agreements with local employers, limiting companies' ability to adjust salaries. According to Nikanorov, these collaborative relationships between unions, government agencies, and employers inhibited companies from violating labor laws and provided unions with the opportunity to influence the government's anti-crisis measures.

COMMENT

¶10. (C) Vladimirskaya oblast appears to be weathering the crisis better than many other industrial regions in Russia. With a relatively diverse economy, the region benefits from investment, output, and employment growth in food processing, chemical production, and other smaller sectors even as the dominant machine building sector continues to struggle. The regional administration's predictions as far as regional productivity and socioeconomic well-being depend heavily on the successful start-up of 16 new enterprises and production

lines with a little over six months left in the year: a rather ambitious target. If, as many experts predict, the financial crisis in Russia continues to spread to other sectors of the nation's economy and non-performing loans force banks to further restrict access to credit, Vladimir's businesses and workers will likely struggle to maintain the advantage they currently enjoy over many of their neighbors. End Comment.
BEYRLE